

Essay on Foreign Direct Investment in Bangladesh

Hints: Introduction, What is FDI? Why FDI is necessary, Environment in favor of FDI in Bangladesh, Problems of FDI in Bangladesh, Recent development of investment situation, Conclusion.

Introduction

Foreign Direct Investment (FDI) is a well-known term nowadays. Any country's economic development largely depends on the collection and use of FDI. It is more important for a developing country like Bangladesh. At present all countries, whether developed, developing, or underdeveloped, are trying to collect more FDI. Since FDI is an important driving force of economic development, its importance is increasing day by day.

What is FDI?

FDI stands for Foreign Direct Investment which simply indicates investment of one country's capital directly to another country. According to the Dictionary of Modern Economics, FDI is, "Any investment in another country which is carried out by private companies or individuals as opposed to govt. aid," So, it is clear that the term FDI bears two main characteristics: capital must come from foreign country and investor must be foreign individual or non-govt organization.

Why FDI is necessary

There is a shortage of capital in every country in respect of their investment opportunity. Especially all developing countries like Bangladesh are suffering from scarcity of capital. Because, in these

countries, the savings rate is very low. Bangladesh is a land of 140 million people whose savings rate is only 14%. 40% people of our country are living below the poverty level. To change the fate of these people huge investment is a must. Since our savings rate is very low, there is no alternative to depending on foreign investment. Foreign investment can become in three ways: Foreign Loan, Foreign Grant, and Foreign Direct Investment. Foreign loans and grants are decreasing day by day in Bangladesh.

So, there is no alternative but to FDI. To reduce unemployment, eliminate poverty, and increase per capita income FDI is very important in this era of globalization. So, the importance of FDI is not a matter of debate nowadays.

The environment in favor of FDI in Bangladesh

In the initial years of after-liberation, private investment was discouraged whether it was domestic or foreign. But, our new industrial policies encourage private investment in all domestic and private sectors excluding only five reserved industries or sectors. These reserved sectors are

- Arms, ammunition, and other defense equipment and machinery.

- Production of atomic energy.

- Forest, plantation, and mechanized extraction within the bounds of reserved forest.

- Security printing and writing.

- Railway and air transportation (except domestic air transportation and air cargo).

Excepting the above-mentioned sectors, the Bangladesh govt allows foreign investment up to 100%. Facilities given by the Bangladesh government are as follows :

100% foreign ownership facility.

Duty exemption up to 15%.

Tax holiday up to 12 years.

Accelerated depreciation is allowed.

Repatriation of invested capital and profit.

Avoidance of double taxation.

Permanent residency facility for large investment.

Legal protection to foreign investment.

Tax exemption up to 3 years for foreign technicians.

Convertibility of current account for international payment etc.

In addition to these facilities, labor cost in Bangladesh is cheaper than that of any country and the people of our country are friendly. Some EPZs have already been established for foreign investors and industries situated in EPZ to get some special facilities. Comparing all these factors with other countries Bangladesh is considered as the haven for FDI.

Problems of FDI in Bangladesh

Though the inflow of FDI in Bangladesh is showing a positive sign it is not enough according to our demand. Past data shows that only 5% of total investment in SAARC countries is invested in Bangladesh whereas Sri Lanka, once a country of civil war, gets 7%.

Even, nowadays, foreigners are investing in Vietnam withdrawing their investment from Bangladesh. But why? Reasons behind this are identified as follows :

Political unrest: Hartal, strike, killing has become a common feature in our country. As a result, no new investment is coming, rather investors are withdrawing their investment.

Bureaucratic problem: Red tapings and lengthy administrative

procedures are other problems. Once OSS (One-Stop Service) was opened in Bangladesh now which has been converted into NSS (Non-Stop Service) actually.

Infrastructural problem: The infrastructure of our country is not developed. Road, electricity, telephone, etc. are not developed and sufficient.

Corruption: All government offices are full of corruption in our country. It is creating a bad image.

Trade Union: In all industries Trade Union is treated as a burden for their illegal activities.

Market problem: Our domestic market is not large enough to attract more foreign investment, whereas our neighbor and competitor India's domestic market is very large.

The recent development of the investment situation

Of late, Bangladesh seems to be attracting a lot of attention from prospective foreign investors from the Orient as well as the Occident. However, two major factors are said to be holding them from making the foray. These are the lack of infrastructure facilities and the delay in the decision-making process. Other factors such as widespread corruption, non-availability of trained manpower, and law and order situation may also influence investment decisions. The government can help improve the investment environment by taking quick decisions on investment-related issues and demonstrating readiness to tackle infra-structure and other problems. The recent visits from the famed House of Tata in India and also those from the high-profile Taiwanese investors are now being followed by another high-profile French business delegation which is on a five-day fact-finding visit to this country. Another large investment offer came from a London-based mining group, which is currently carrying out a feasibility study on the Phulbari coal mine in Dinajpur where a mine of high-grade coal has been discovered. The president of Asia Energy

Plc along with a top official of a large British bank, Barclays Plc, visited Dhaka and met senior government officials. He talked about investing in the region of US\$3 billion in mining and setting up a power plant in the next few years.

The French delegation led by Philippe Vindry, who is called president delegate of Chambers of Commerce and Industry in Paris, has made it clear to his Bangladeshi colleagues that whatever they have seen so far has made them feel that “this is a good place for our investment.” Apparently, a cement plant being established by Lafarge, a French multinational and a big player on the world stage, has made them more interested in Bangladesh. Taiwanese business delegation members talked about making an investment of up to \$3 billion in Bangladesh, mostly in textile and textile-related fields. They seem to believe that Bangladeshi entrepreneurs and workers understand the textile and ready-made garment business and also have a large easily trainable labor force, which they could profitably use to establish profitable operations here for mutual benefit. After the two high-level visits by the prospective Taiwanese investors, a business mission from Dhaka should now visit Taipei to follow up the work done by the large number of Taiwanese businessmen who were in those delegations.

Besides Nortel of GrameenPhone, prospective large investors from Singapore and other places are showing interest to enter this sector by taking over another local company. However, it is too early to speculate about such a development at this stage.

Conclusion

To face the challenges of the 21st century, a breakthrough in the economy of Bangladesh is as an LDC (Least Developed Country), so, FDI is a must here and govt should take more liberalized industrial

policy offering more attractive incentives for private investment. Consequently, we have to solve our political, bureaucratic, and infrastructural problems. If we can solve these problems, Bangladesh would really be a haven for foreign investment and our economy may be changed radically. Then we would be fit for the new millennium.